ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC

09

Québec

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QUÉBEC IN 2009

1. Québec's gross domestic product is more than $300 billion, representing almost 20% of Canada's economy.

2. First in Canada by surface area, Québec ranks second in population with 7.8 million people.

3. A natural gateway to the North American continent, Québec offers preferred access to a market of more than 440 million consumers through its participation in the North American Free Trade Agreement (NAFTA).

4. Investing in Québec means taking advantage of a highly educated workforce, competitive tax treatment for investment, and low business location and operating costs.

5. The Québec government has decided to support the economy even if that means deficits, but it will implement a plan to return to balanced budgets to eliminate the deficit by 2013-2014.

ECONOMY

ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC

2019

QUÉBEC: A LAND OF GROWTH AND INVESTMENT

Québec

ECONOMY

A PRIME BUSINESS ENVIRONMENT

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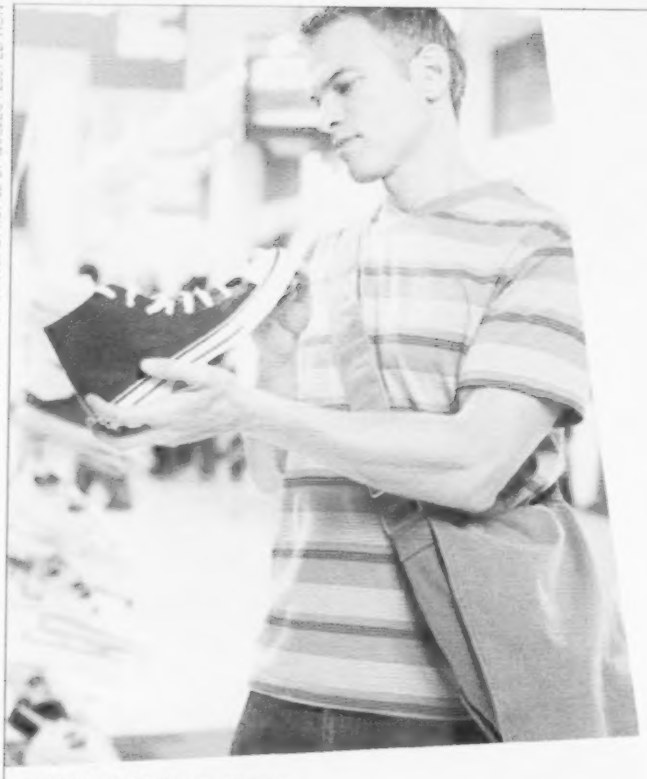


ECONOMIC OUTLOOK

QUÉBEC DRAGGED INTO RECESSION BY THE UNITED STATES

Québec's economy grew by 1% in 2008 compared with 0.4% for Canada as a whole.

Like most advanced economies, Québec is affected in 2009 by the financial crisis and global recession. Its economy has been dragged into recession by weak demand in the United States, which will result in a substantial decline in its exports.

Growth in domestic demand remains positive, but is also affected by the global recession.

- Household spending is slowing because of low consumer confidence.
- Business investment is down because of weak demand.
- The labour market is deteriorating with the accumulation of job losses since November 2008.

The recession will be milder in Québec than in Canada or the United States thanks to the stronger balance sheets of households, a more balanced housing market and the government's actions to support the economy, in particular the infrastructure program, that will add 1.5% to output in 2009 and 2010 and will support 60 000 jobs.

In 2010, because of the expected economic recovery in the United States, Québec will also return to growth.

Québec's 2009-2010 budget forecasts a decline of 1.2% in real GDP in 2009 along with a loss of 62 900 jobs. Fuelled by government action and the recovery in the United States, economic growth is expected to reach 1.9% in 2010.

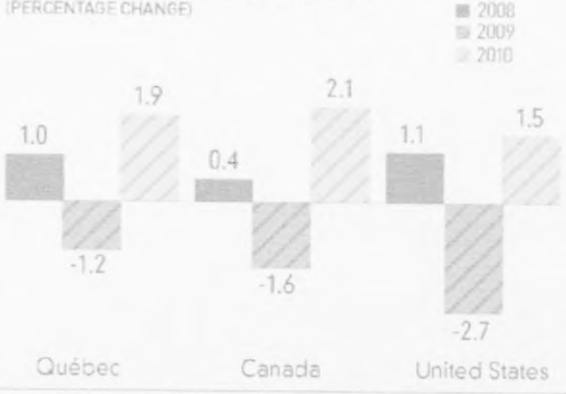
Accordingly, the unemployment rate will rise from 7.2% in 2008 to 9.1% in 2010, a rate far below those observed during the sharp economic downturns in 1983 (14.2%) and 1993 (13.2%).

ECONOMIC INDICATORS
(PERCENTAGE CHANGE, IN REAL TERMS)

QUÉBEC	2008	2009	2010
Real gross domestic product	1.0	-1.2	1.9
Nominal gross domestic product	1.6	0.1	3.9
Consumption	3.1	1.7	2.2
Housing starts (thousands)	47.9	38.8	37.3
Business investment	4.7	-8.4	6.4
Total exports	-2.5	-7.0	2.2
Unemployment rate	7.2	8.9	9.1
Job creation (thousands)	30.0	-62.9	29.5
Consumer price index	2.1	0.4	2.0
CANADA			
Interest rates			
Treasury bills (3 months)	2.4	0.6	1.7
Bonds (10 years)	3.6	2.9	3.7
Canadian dollar (in US cents)	93.3	82.4	91.6

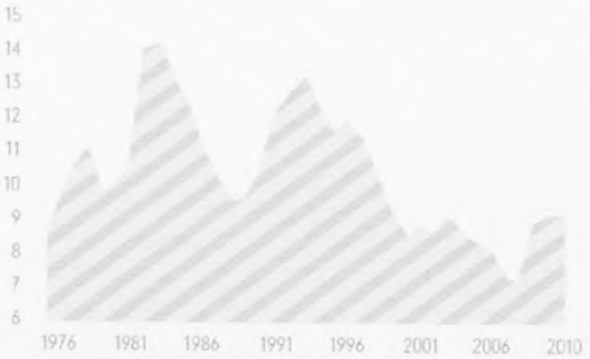
SOURCE: 2009-2010 QUÉBEC BUDGET.

REAL GROSS DOMESTIC PRODUCT
(PERCENTAGE CHANGE)



SOURCES: IHS GLOBAL INSIGHT, INSTITUT DE LA STATISTIQUE DU QUÉBEC, STATISTICS CANADA AND MINISTÈRE DES FINANCES DU QUÉBEC.

UNEMPLOYMENT RATE
(PERCENTAGE CHANGE)



SOURCES: STATISTICS CANADA AND MINISTÈRE DES FINANCES DU QUÉBEC.

AN ECONOMY DRIVEN BY ITS HUMAN CAPITAL

AN EDUCATED WORKFORCE

Québec has an educated workforce.

- 75% of workers in Québec have a secondary school diploma or better.
- Of the working age population, 18% hold a university level diploma.

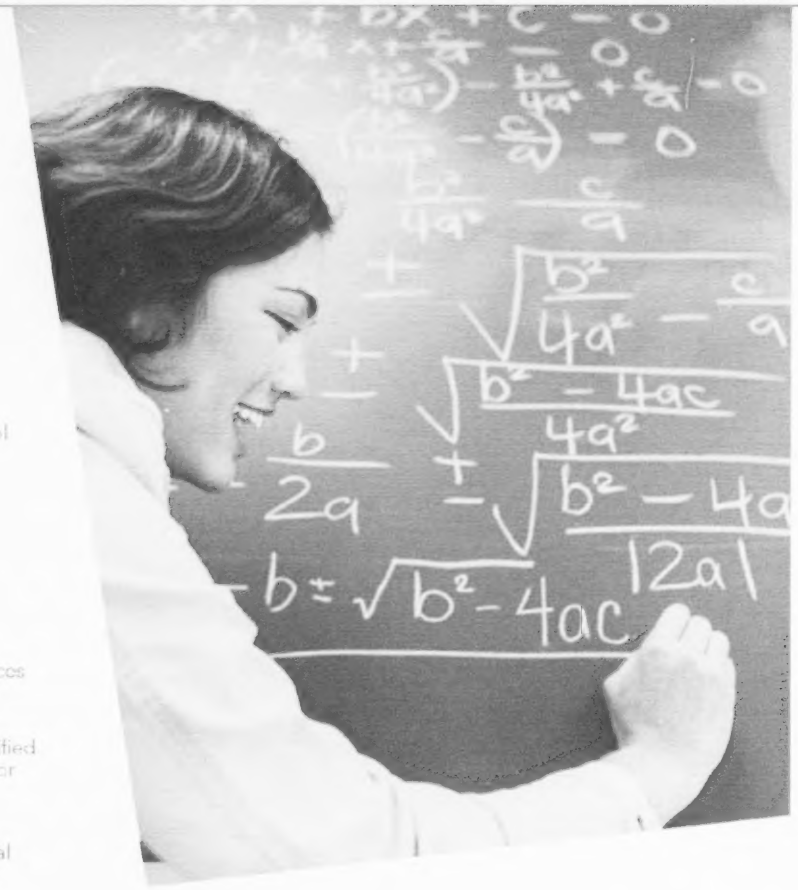
AN ECONOMY THAT WELCOMES QUALIFIED WORKERS

In January 2009, the Premiers of the Canadian provinces and territories committed to adopting a significant measure to improve labour mobility within Canada.

- From now on, workers who are recognized as qualified for a job by a regulatory authority in one province or territory will be so recognized by all provinces.

In October 2008, France and Québec adopted a common procedure for the recognition of professional qualifications.

- This agreement will make it easier and faster to obtain a regulated license to exercise a trade or profession in both jurisdictions.

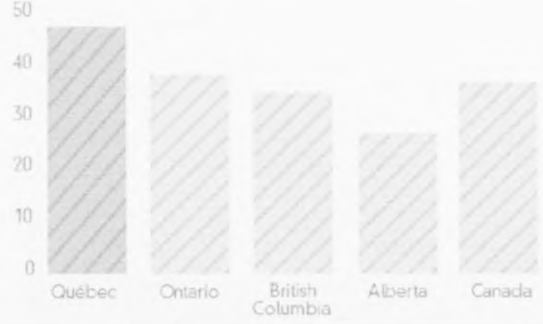


ALMOST HALF OF QUÉBEC'S POPULATION SPEAKS AT LEAST TWO LANGUAGES

- Two languages are spoken by 36% of Québec's population, while 11% are trilingual.
- Québec's population is the most multi-lingual of Canada's provinces.
- Québec receives over 40 000 immigrants a year from every country, contributing to the diversity of Québec's culture.

KNOWLEDGE OF TWO OR MORE LANGUAGES – 2006 CENSUS

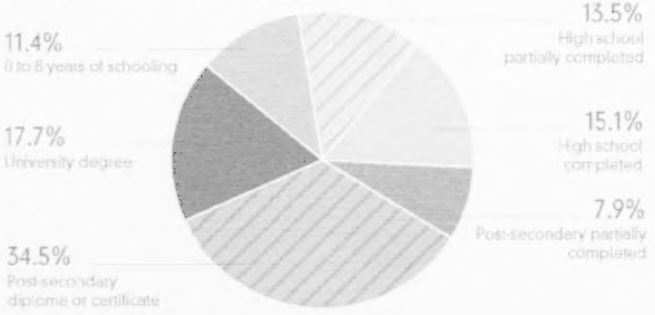
(PERCENTAGE OF TOTAL POPULATION)



SOURCE: STATISTICS CANADA, 2006 CENSUS

DISTRIBUTION OF QUÉBEC'S WORKFORCE BY LEVEL OF SCHOOLING – 2008

(PERCENTAGE OF THE POPULATION AGE 15 OR OVER)



SOURCE: STATISTICS CANADA

AN ECONOMY FOCUSED ON HIGH TECHNOLOGY

AEROSPACE

Transportation equipment accounts for one fifth of the volume of Québec's international exports of goods.

The keystone of the industry is aeronautics, which employs nearly 24 000 workers in Québec. The sector had sales of some $12.7 billion in 2008.

- More than half of the workers in the Canadian aeronautics industry works in Québec.
- Québec accounts for close to 70% of Canadian shipments of aeronautic products.

Québec's aeronautics industry includes almost 110 companies specialized in making airplanes, helicopters, engines, parts and flight simulators.

- Bombardier Aerospace, the regional and business jet market leader, launched the manufacturing program for the new CSeries aircraft in 2008.
- The new industry benchmark, the CSeries line, will boast the most recent technological breakthroughs, including:
  - increased use of composite materials and lithium aluminum alloys in structures;
  - Pratt & Whitney's latest-generation jet engine, the PW1000G Geared Turbofan™, made in the Montréal region.
- Cseries aircraft will be the most environmentally-friendly in their category, consuming two litres of fuel per passenger per 100 km.

LIFE SCIENCES

Life sciences encompass the pharmaceutical industry and the biotechnology industry.

The pharmaceutical industry employs more than 8 000 people in Québec. Close to one third of pharmaceutical products and drugs in Canada is produced in Québec.

Most of the largest pharmaceutical multinationals have research and manufacturing centres in Québec.

- Since 2000, Sanofi-Aventis has expanded its pharmaceutical plant and its head office in Laval four times.
- In 2008, Boehringer Ingelheim completed construction of an advanced-technology research centre in Laval.

Québec ranks 4th in North America in the biotechnology sector. More than half the biotechnology firms in Québec specialize in human health.

In addition, many Québec biotechnology companies develop processes to improve human nutrition, farm and agri-food techniques, and the reuse of industrial waste.

- Bio Terre Systèmes commercializes a technology to generate energy from farm and agri-food waste.
- Biopharmacopae has developed the eXcelerate™ technology that facilitates the discovery of new bioactive ingredients extracted from plants.
- The ColiPROtec vaccine, developed by Prevtec Microbia, prevents the development of post-weaning diarrhea in livestock, such as pigs.

ENVIRONMENTAL TECHNOLOGIES

The current economic situation favours the development of a world class environmental industry, since during the past year, many countries have brought forward economic recovery plans that include substantial investment in infrastructure and green technologies.

Québec's environmental and green technologies industry includes almost 1 600 companies and more than 34 000 jobs, i.e. 20% of jobs in this sector in Canada.

Many Québec companies have developed unique green technologies that allow them to hold an enviable position on the international environmental market.

- Biomatera has developed a nanotechnology for producing polymers that are fully biodegradable starting from renewable raw materials.
- With its unique DaguaFlo drinking water treatment technology, which works without chemical products, DAGUA received a technology achievement prize in 2008 from the American magazine, Environmental Business Journal.
- Elcotech Inc. has designed the CINETIK™ line of equipment using an innovative linear electro-dewatering technology to more efficiently treat industrial and municipal sludge.
- Odotech Inc. designs and makes odour measurement and monitoring systems, such as the OdoWatch® e-nose system for real-time odour monitoring.

INFORMATION AND COMMUNICATION TECHNOLOGIES

Information and communication companies are developing new products that contribute to productivity improvement.

In addition to companies like CGI, the largest computer services company in Canada, Québec has many dynamic companies in the field of optics-photonics and multimedia.

PHOTONICS

Québec's photonic sector includes innovative companies that have developed specialized technology that sets them apart from their international competitors.

- TeraXion was selected by the American Defence Department to supply reconfigurable dispersion compensation modules that are key components for high-speed data transmission over fibre-optic cable.
- EXFO is one of the world's largest suppliers of testing and monitoring solutions for network operators and makers of telecommunications equipment.
  - In 2009, EXFO launched the fastest line of optical sampling oscilloscopes on the market.
- ART Advanced Research Technologies Inc. has developed the Optix® in vivo optical molecular imaging device, used in preclinical research on new drugs.

MULTIMEDIA

One of the multimedia industry's areas of excellence is undoubtedly the production of entertainment software. The industry has more than 55 companies employing in excess of 6 500 workers.

Major video game companies known around the world, such as A2M, Ubisoft, Electronic Arts, Eidos Interactive and Gameloft, have facilities in metropolitan Montréal.

As a result of the availability of skilled and creative workers, Montréal is now considered a major international centre.

AN INNOVATIVE ECONOMY

A LEADER AMONG INDUSTRIALIZED COUNTRIES

In 2006, Québec allocated 2.7% of its GDP to R&D.

- That is higher than the average rate in the OECD countries, the G7 and the European Union.

Québec has set an objective of raising the proportion of GDP allocated to R&D spending to 3% by 2010.

VENTURE CAPITAL: A STRATEGY THAT IS PRODUCING RESULTS

Québec has adopted an aggressive strategy to develop a more diversified venture capital industry with a greater emphasis on private financing.

The strategy has made it possible to diversify available sources of financing for Québec technology companies and the results are convincing.

- From 2002 to 2008, the share of private or foreign investment in venture capital financing in Québec rose from 49% to 60%.

To consolidate the direction taken regarding venture capital, the following initiatives were announced in the 2009-2010 budget:

- $825 million to finance venture capital funds;
- $125 million for the creation of three seed funds.

R&D SPENDING: QUÉBEC STANDS OUT

Spending on R&D is growing faster in Québec than in the other Canadian provinces.

- Since 1983, R&D spending in Québec, expressed as a percentage of GDP, has grown by an average of 4.1% per year compared with 2.3% for Ontario and 1.7% for Canada as a whole.
- Since 1995, Québec has been the province that, as a proportion of its GDP, has posted the highest level of R&D spending in Canada.

A TAX SYSTEM THAT ENCOURAGES INNOVATION

Corporate R&D expenditures enjoy favourable tax treatment.

- It is the most competitive in Canada for small and medium enterprises and among the most advantageous of the G7 countries for large enterprises.

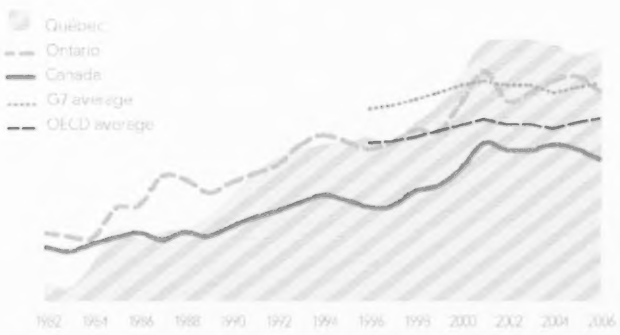
In the 2009-2010 budget, the government announced the implementation of an incentive to increase the number of companies spun off from research done in a university setting. Accordingly, a new corporate income tax holiday for businesses that commercialize intellectual property stemming from a Québec public institution have been implemented to encourage more innovation.

GROSS DOMESTIC EXPENDITURES ON R&D, 2006
(PERCENTAGE OF GDP)

Québec	2.7
Canada	2.0
Ontario	2.5
G7	2.5
OECD	2.3
European Union	1.8

SOURCE: INSTITUT DE LA STATISTIQUE DU QUÉBEC.

GROSS DOMESTIC EXPENDITURES ON R&D
(PERCENTAGE OF GDP)



SOURCE: INSTITUT DE LA STATISTIQUE DU QUÉBEC.

NET AFTER-TAX COST OF AN R&D EXPENDITURE[1, 2]
(DOLLARS)

1. Income needed to cover an R&D expenditure of $1 for a large company. The lower the index, the more generous the tax relief measures.
2. Rates in effect on January 1, 2009 for Québec. Rates in effect in 2008 for the various countries.

SOURCES: OECD SCIENCE, TECHNOLOGY AND INDUSTRY OUTLOOK 2008 AND MINISTÈRE DES FINANCES DU QUÉBEC.

A COMPETITIVE ECONOMY

LOW BUSINESS LOCATION AND OPERATING COSTS

Compared to the major industrialized countries, Québec's business location and operating costs are low.

According to the most recent figures, these costs are 4.4% lower than the Canadian average, 13.3% lower than in the United States and 15.4% below the average of the G7 countries.

In particular, Québec stands out with competitive labour and transportation costs as well as a competitive tax system.

A COMPETITIVE TAX SYSTEM FOR INVESTMENT

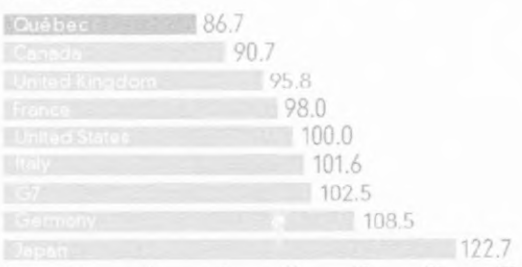
Companies in Québec operate under a globally competitive tax system for new investments.

The tax rate on investment in Québec is below the average rates of the United States and of the OECD countries. Moreover, it is one of the lowest in Canada, mainly due to:

- a tax rate on business profits among the lowest in North America;
- the rebate of the Québec sales tax on capital goods;
- the elimination of the tax on capital, in 2008, for manufacturing businesses and by January 1, 2011, for all businesses;
- an investment tax credit of 5% on acquisitions of manufacturing and processing equipment.

INDEX OF BUSINESS LOCATION AND OPERATING COSTS[1]

(UNITED STATES = 100)



1. Results obtained from the 2008 KPMG Competitive Alternatives cost model. The lower the index, the lower the business location and operating costs in the jurisdiction concerned.

SOURCES: KPMG COMPETITIVE ALTERNATIVES MODEL AND MINISTÈRE DES FINANCES DU QUÉBEC

MARGINAL EFFECTIVE TAX RATES ON INVESTMENT (METR)[1]

(PER CENT)

Note: Updated in July 2009.

1. METRs are indicators of the impact of the tax system on real investments. They represent the effect of all tax expenses and rules affecting the return on capital invested. They take into account the tax on capital, sales tax, corporate income tax, depreciation rules and rates, and accounting methods for inventory.

SOURCES: MINISTÈRE DES FINANCES DU QUÉBEC AND C.D. HOWE INSTITUTE

AN ECONOMY OPEN TO THE WORLD

AN ECONOMY INTEGRATED WITH THE NORTH AMERICAN MARKET

Québec enjoys a unique geographical situation.

Under the North American Free Trade Agreement (NAFTA), Québec is integrated into a market of more than 440 million consumers.

- Since NAFTA has been in effect, Québec's international exports have grown from 20% of GDP in 1988 to 34% in 2008.

In addition, Québec is one of the major gateways to the Americas.

Québec has more than 3 000 km of coastline. The St-Lawrence river, estuary and gulf, which form the St-Lawrence Seaway, provide preferred access for the export and import of products for North America.

AN ECONOMY OPEN TO THE WORLD

Exporters have developed business connections throughout the world.

- Almost 75% of international exports are shipped to the United States.
- European countries receive 14.4% of Québec's exports, up an average of 8.2% per year from 2003 to 2008.

Asia ranks third among destinations, with 5.1% of exports.

QUÉBEC'S NEW ECONOMIC SPACE

PARTNERSHIP WITH THE EUROPEAN UNION
In 2008, Québec and the other provinces came together to offer the federal government their cooperation in reaching an economic partnership agreement with the European Union.

TRADE AGREEMENT WITH ONTARIO
Québec is in the process of negotiating an expanded agreement with Ontario on labour mobility and trade.

THE NORTHERN PLAN
In 2008, the Québec government announced an ambitious development plan for northern Québec.

QUÉBEC IS A WORLD LEADER IN MANY MARKETS

Québec is known internationally for the vitality of its aeronautics industry.

- From 1998 to 2008, exports of aircraft and parts gained 7.0% on average per year.

In 2008, aircraft and parts accounted for 12,7% of Québec's international exports of goods.

Québec is the world's fourth-largest producer of primary aluminum.

- Québec's production capacity is close to 3 million tonnes per year.

In 2012, Québec will be host to the only aluminum plant in the world using AP50 electrolysis technology.

QUÉBEC'S PORTS

Québec has five international ports, including:

- the Montréal container port, which is the route of choice to the markets of Chicago and the Midwest;
- the port of Québec, known for its international cruise activities, was awarded the 2008 Best Destination Experience prize by Dream World Cruise Destinations magazine;
- the port of Sept Îles is the largest ore port in Canada.

AVERAGE ANNUAL GROWTH IN INTERNATIONAL EXPORTS OF GOODS – 1998-2008
(PER CENT)

SOURCE: INSTITUT DE LA STATISTIQUE DU QUÉBEC

BREAKDOWN OF INTERNATIONAL EXPORTS OF GOODS BY REGION - 2008
(PER CENT)

SOURCE: INSTITUT DE LA STATISTIQUE DU QUÉBEC

A DIVERSIFIED ECONOMY WITH RECOGNITION ABROAD

QUÉBEC'S DIVERSITY

The many facets of Québec's territory make it the most diversified economy in Canada: Its industrial diversity index is 99.8 whereas, with the exception of Ontario, all the provinces of Canada have an index below 90.0.

Québec is divided into 17 administrative regions. Each one possesses a unique potential. Many regional specialities position Québec as a leader in North America and the world.

- Abitibi-Témiscamingue is known over the world for its abundant deposits of precious metals, copper and zinc.
- Bas-Saint-Laurent has earned a reputation for maritime expertise and stands out in the marine biotechnology sector.
- Saguenay–Lac-Saint-Jean is a major player in the production of aluminum.
- Montréal is known throughout the world in the fields of life sciences and video games.

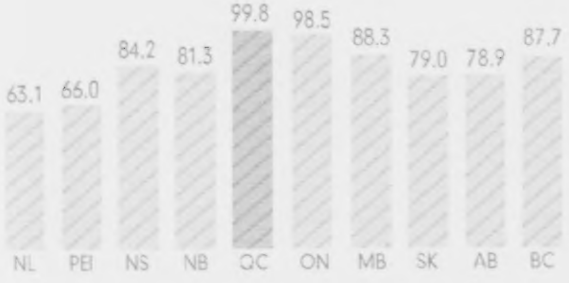
A LEADING-EDGE FINANCIAL SECTOR

Québec and Canada have a sound, efficient and transparent financial sector, the result of effective harmonization and a policy of constantly improving the regulatory and market supervision framework.

The financial sector plays a key role in the creation of wealth. It alone accounts for over 6% of all economic activity in Québec.

- Many Québec financial institutions are well-known abroad, including the Caisse de dépôt et placement du Québec, one of the largest institutional fund managers in Canada. In addition, 110 international financial centres specializing in international financial transactions are located in Montréal, hiring and employing highly skilled workers.
- As the only Canadian derivatives exchange, the Montréal Exchange plays a leadership role in three areas of finance: financial derivatives, information technology solutions and clearing-house services.
- On May 1, 2008, the Montréal Exchange and TSX Group merged to form TMX Group, a major integrated financial exchange group.
- The Montréal Exchange now holds a 53.8% majority interest in Boston Options Exchange (BOX), one of seven options exchanges in the United States. The combined volume of the Montréal Exchange and BOX continues to grow.
- On March 10, 2009, the London Stock Exchange announced that its derivatives subsidiary, EDX London, had selected the SOLA® trading platform, the intellectual property of the Montréal Exchange. The SOLA® platform was developed in Montréal and is used by the Montréal Exchange and by BOX.

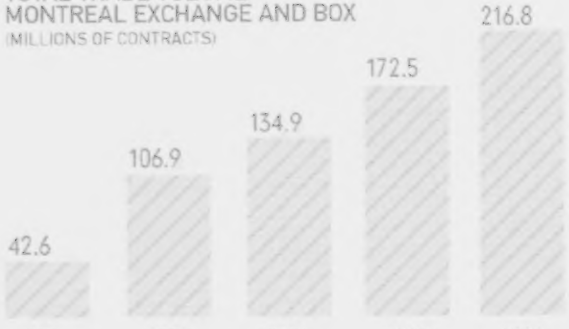
INDUSTRIAL DIVERSITY INDEX BY PROVINCE - 2008[1]



Note: An index close to 100 means that the economy of the province in question is as diversified as that of Canada.
1 Preliminary estimates.

SOURCE: COMPILATION BY THE MINISTÈRE DU DÉVELOPPEMENT ÉCONOMIQUE, DE L'INNOVATION ET DE L'EXPORTATION DU QUÉBEC USING STATISTICS CANADA'S BUSINESS REGISTER

TOTAL TRADE VOLUME MONTREAL EXCHANGE AND BOX
(MILLIONS OF CONTRACTS)



SOURCES: MONTRÉAL EXCHANGE AND BOSTON OPTIONS EXCHANGE

SUSTAINABLE DEVELOPMENT

FOREST RESOURCES

A country of lakes and rivers, Québec is also a land of forests. Québec's forests account for 20% of Canada's and 2% of the world's forests.

Québec's forests are managed responsibly.

- Québec's forests are regulated to ensure their long-term viability and sustainable development.
- The forest industry is putting innovation and creativity to work with the development and marketing of high value-added products.

MINING RESOURCES

Today, Québec ranks among the world's leading producers of iron, zinc, nickel, silver and gold.

According to the 2008-2009 international survey of mining companies conducted by the Fraser Institute, Québec offers the best environment for mining investment in the world.

- Québec ranks first for the best mining policies.
- Québec ranks first in Canada and second in the world for its mineral potential.
- The tax system pertaining to mining in Québec is among the most advantageous in Canada.

A WINNING STRATEGY

Québec's energy strategy for 2006-2015 is decidedly focused on the development of clean energy, i.e. hydroelectricity and wind power.

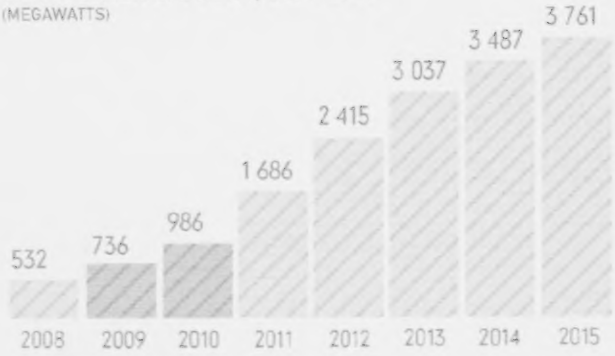
For Hydro-Québec, this means:

- gradual integration into Hydro-Québec's network of some 4 000 megawatts of wind-power supply;
- constitution of a portfolio of hydroelectric projects including the la Romaine river project whose installed power will amount to 1 550 megawatts and will produce 8 terawatthours of power annually;
- continuation of work on hydroelectric projects to increase production capacity. These include in particular the Eastmain-1-A–Sarcelle–Rupert generating stations and the Chute-Allard and Rapides-des-Coeurs hydroelectric development. These two projects will add 1 056 megawatts to Hydro-Québec's production capacity, which currently stands at 36 429 megawatts, and will generate 9.6 terawatthours per year;
- implementation of an overall energy efficiency plan producing annual energy savings of close to 6 terawatthours for 2010 and 11 terawatthours by 2015.

RANKING OF PLACES WITH THE BEST MINING POLICIES, 2008-2009

SOURCE: FRASER INSTITUTE

GROWTH OF INSTALLED WIND POWER CAPACITY, 2008-2015
(MEGAWATTS)



SOURCE: MINISTÈRE DES RESSOURCES NATURELLES ET DE LA FAUNE DU QUÉBEC

HYDRO-QUÉBEC

A PILLAR IN FAVOUR OF SUSTAINABLE DEVELOPMENT IN QUÉBEC

Created in 1944, Hydro Québec is a government corporation whose sole shareholder is the Québec government.

Hydro-Québec produces, transmits and distributes electricity. It develops essentially renewable energy, hydro-electricity in particular. It supports the development of wind power through its purchases from private producers. For a number of years, it has promoted energy efficiency and implemented programs that produce energy savings for its customers.

In 2008, water power accounted for 98% of energy production. This is a green and renewable source of energy with a high degree of development flexibility and a very small greenhouse gas footprint.

In 2008, Hydro-Québec continued work on the major Eastmain-1-A–Sarcelle–Rupert project in James Bay, brought the Péribonka generating station in Saguenay–Lac-Saint-Jean on line and installed four turbine-alternator groups at the Chute-Allard and Rapides-des-Cœurs facility in Mauricie.

Hydro-Québec operates the most extensive electricity transmission network in North America for the benefit of its customers within and outside Québec. It trades electricity with the networks of neighbouring provinces and the northeastern United States.

In 2008, Hydro-Québec allocated substantial resources to the development of the transmission network, in particular to incorporate new equipment and increase transit capacity with neighbouring networks.

LA ROMAINE

The La Romaine hydroelectric generating complex, with capacity of 1 550 megawatts , will be located on the Romaine River, on Québec's Côte-Nord.

Estimated at $6.5 billion, it will include four generators fed by reservoirs and a permanent road of 150 km. It is the largest construction project in Canada.

The facility is forecast to produce 8 terawatthours per year on average, equivalent to the consumption of more than 450 000 Québec households.

On average, almost 1 000 workers per year will be involved in the project. At its peak, between 2012 and 2016, 2 000 will be required.

HYDRO-QUÉBEC - 2008 HIGHLIGHTS

(MILLIONS OF DOLLARS)

Revenue	12 717
Income from continuing operations	3 012
Net earnings	3 141
Total assets	66 774
Staff level (persons)	23 345
Installed capacity (megawatts)	36 429

SOURCE: HYDRO-QUÉBEC'S 2008 ANNUAL REPORT

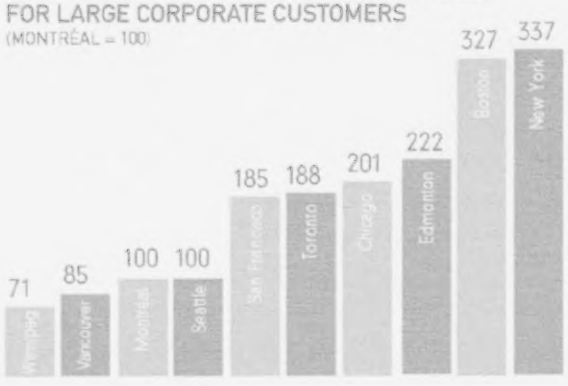
INCOME FROM CONTINUING OPERATIONS

(MILLIONS OF DOLLARS)

SOURCE: HYDRO-QUÉBEC'S 2008 ANNUAL REPORT

COMPARATIVE INDEX OF ELECTRICITY PRICES FOR LARGE CORPORATE CUSTOMERS

(MONTRÉAL = 100)



SOURCE: HYDRO-QUÉBEC, COMPARISON OF ELECTRICITY PRICES IN MAJOR NORTH AMERICAN CITIES, APRIL 1, 2008

Finances
Québec

PUBLIC FINANCES

ECONOMIC AND FINANCIAL

PROFILE OF QUÉBEC

09

QUÉBEC, A PRUDENT AND DISCIPLINED MANAGER

Québec

PUBLIC FINANCES

A GOVERNMENT DETERMINED TO MAINTAIN SOUND MANAGEMENT OF PUBLIC FINANCES

Responsible Management of Public Finances .2

The Government's Strategy: Support the Economy first, then Restore Fiscal Balance .4

Supporting Jobs and Preparing for Economic Recovery .6

The Generations Fund, a Positive Step for the Future .7

RESPONSIBLE MANAGEMENT OF PUBLIC FINANCES

DEFICIT SITUATION AS OF 2009-2010

Like other jurisdictions in the world, Québec has not been immune to the global recession that has developed since the fall of 2008.

The deteriorating economic environment together with the cost of measures put in place to deal with the economic slowdown will bring Québec into a deficit position as of 2009-2010.

- Forecast deficits over the next two years amount to 1.3% and 1.2% of GDP in 2009 and 2010 respectively, levels that are less than or comparable to other governments in the world.

A RETURN TO BALANCED BUDGETS BY 2013-2014

The 2009-2010 budget has announced the implementation of a plan to gradually reduce the deficit as of 2010-2011 and eliminate it by 2013-2014.

Under the plan, the levels of expenditure and revenue in the economy will be returned to what they were prior to the recession, while efforts to reduce the debt burden will continue.

SPENDING CONTROL

The government keeps tight control over its spending.

- Spending growth in Québec averaged 4.6% from 2003-2004 to 2008-2009 compared to 6.6% for the provinces on average.

Program spending growth is limited to 4.5% in 2009-2010.

PRIORITIES: HEALTH AND EDUCATION

Despite the current economic slowdown, the government will continue to invest in its essential missions: health and education.

- These essential government missions have received substantial budget increases in recent years.

The government is allocating 45% of its program spending to the health sector in 2009-2010.

- The health budget is up $1.5 billion in 2009-2010, a rise of 5.7%.

Education accounts for 24% of the government's program spending.

- In 2009-2010, spending on education will rise by $490 million, an increase of 3.5%.

SUMMARY OF CONSOLIDATED BUDGETARY OPERATIONS – 2009-2010 BUDGET

(MILLIONS OF DOLLARS)

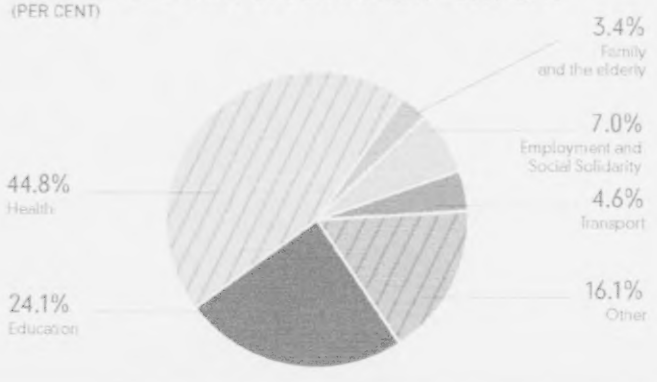
	Preliminary	Forecasts		Projections		
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Budgetary revenue	62 479	62 212	64 017	66 189	68 979	71 565
% change	– 1.0	– 0.4	2.9	3.4	4.2	3.7
Budgetary expenditure	– 63 989	– 66 093	– 68 525	– 71 492	– 74 716	– 77 354
% change	3.5	3.3	3.7	4.3	4.5	3.5
Net results of consolidated entities	205	355	563	688	748	873
SURPLUS (DEFICIT) FOR THE PURPOSES OF THE PUBLIC ACCOUNTS	– 1 305	– 3 526	– 3 945	– 4 615	– 4 989	– 4 916
Deposit of dedicated revenues in the Generations Fund	– 569	– 715	– 880	– 957	– 1 038	– 1 126
BUDGETARY BALANCE BEFORE USE OF BUDGETARY RESERVE AND IMPACT OF THE PLAN TO RESTORE FISCAL BALANCE	– 1 874	– 4 241	– 4 825	– 5 572	– 6 027	– 6 042
Deposit in the Generations Fund from the budgetary reserve	– 132	—	—	—	—	—
Use of the budgetary reserve	2 006	295	—	—	—	—
Impact of the plan to restore fiscal balance			1 065	2 933	4 759	6 130
BUDGETARY BALANCE FOR THE PURPOSES OF THE BALANCED BUDGET ACT	0	– 3 946	– 3 760	– 2 639	– 1 268	88

A RETURN TO BALANCED BUDGETS BY 2013-2014

(MILLIONS OF DOLLARS)

PROGRAM SPENDING BY DEPARTMENT - 2009-2010

(PER CENT)



THE CANADIAN FEDERATION

Québec is part of Canada, a federation created in 1867.

The jurisdictions of the federal government and the ten provinces are defined in the Constitution.

- The federal government is responsible for international trade, national defence, currency, monetary policy and employment insurance, among other things.
- The provinces have exclusive jurisdiction in many fields including health, education, social services and municipal affairs.

The various orders of government in Canada collect revenue equivalent to 35% of GDP, of which:

- 45% is collected by the federal government;
- 55% is collected by provincial governments and local administrations (municipalities and school boards).

DIVERSIFIED REVENUE SOURCES

Québec's revenue comes from two sources:

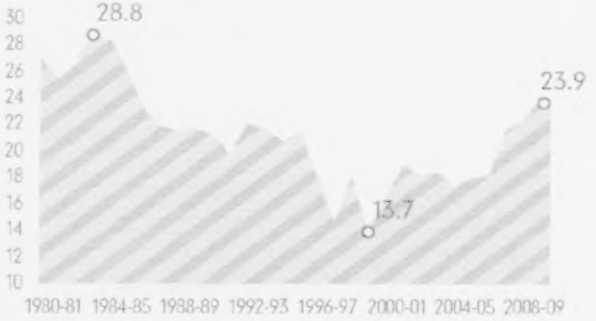
- own-source revenue (76.1%);
- federal transfers (23.9%).

Most own-source revenue is derived from the personal income tax (38%) and taxes on consumption (28%).

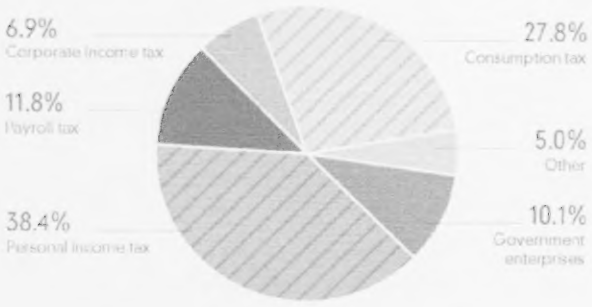
Québec is one of the six provinces that receive transfer payments under the federal Equalization Program. These transfers account for more than half of federal transfers to Québec.

- Québec and the nine other provinces also receive transfers for social programs such as health care and post-secondary education.

FEDERAL TRANSFERS, 1980-1981 TO 2009-2010
(AS A PERCENTAGE OF BUDGETARY REVENUE)



THE GOVERNMENT'S OWN-SOURCE REVENUE, 2009-2010
(BY SOURCE)



THE GOVERNMENT'S STRATEGY: SUPPORT THE ECONOMY FIRST, THEN RESTORE FISCAL BALANCE

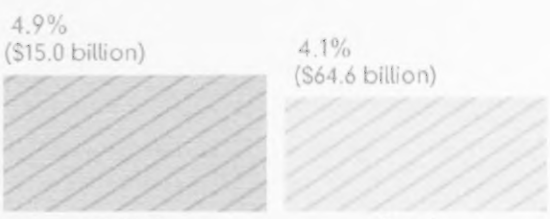
INJECTION OF $15 BILLION OF CASH RESOURCES INTO THE ECONOMY

- In 2009 and 2010, over $15 billion will be injected into the economy, equivalent to 4.9% of GDP, including:
  - $5.3 billion for businesses, $1.4 billion for individuals and $8.3 billion to improve infrastructures.
- 60 000 jobs will be created or maintained as a result of government action.
- Relatively speaking, the efforts made by Québec compare favourably with those of Canada, which has also adopted an ambitious economic intervention plan representing 4.1% of the GDP.

AVERAGE ANNUAL INVESTMENTS UNDER THE QUÉBEC INFRASTRUCTURES PLAN

- Average annual investments under the Québec Infrastructures Plan will approach $8.4 billion over the period from 2008-2009 to 2012-2013.
  - That is $4 billion more, on average, than during the five preceding years and in excess of three times more than 10 years ago.
- Major investments will be made in the coming years to maintain, improve and develop infrastructures including:
  - $19.2 billion in transportation infrastructures, encompassing roads, public transit and ferries;
  - $8.8 billion for health infrastructures, including hospitals and long-term care residential centres.

COMPARISON OF GOVERNMENT ACTIONS AS A PERCENTAGE OF GDP
(PER CENT)



Note : Includes fiscal and budgetary measures, infrastructures and cash resources injected to support the economy.

AVERAGE ANNUAL INVESTMENTS BY THE QUÉBEC GOVERNMENT IN FIXED ASSETS
(MILLIONS OF DOLLARS)

1 Included in the Québec cash resources injection plan.

SOURCES: MINISTÈRE DES FINANCES DU QUÉBEC AND DEPARTMENT OF FINANCE CANADA – BUDGET 2009.

IMMEDIATE ACTION TO DEAL WITH THE FINANCIAL AND ECONOMIC CRISIS

- The government is supporting households' income and protecting their purchasing power, in particular by more generous indexing of the personal income tax system and of last resort benefits ($460 million).
- The government is implementing measures to boost the cash resources of businesses and support home renovation:
  - the Renfort program makes up to $1 billion in additional cash resources available to businesses to finance their working capital or their investment projects;
  - a contribution of $1 billion to the SGF over two years to invest in Québec companies;
  - a new tax credit is being introduced for home improvement and renovation ($250 million).

2009-2010 BUDGET: SUPPORTING JOBS AND PREPARING FOR ECONOMIC RECOVERY

- The 2009-2010 budget contains many initiatives under which almost $3.4 billion will be injected in 2009 and 2010, including:
  - $2.3 billion for businesses;
  - $678 million for individuals;
  - $363 million to improve infrastructures.
- The 2009-2010 budget also includes a plan to eliminate the deficit by 2013-2014 by, among other things, indexing fees and raising the Québec sales tax from 7.5% to 8.5% as of January 1, 2011.

SUPPORTING JOBS AND PREPARING FOR ECONOMIC RECOVERY

ADDITIONAL IMMEDIATE ACTIONS TO SUPPORT BUSINESSES AND WORKERS

- Québec companies will benefit from more than $1 billion in additional cash resources through, in particular, a $500 million emergency fund for the recovery of businesses, the stock savings plan II and improvements to the Renfort program.
- To mitigate the effects of the economic slowdown on workers and businesses, the government is improving the Employment Pact, bringing it from $ 1 billion to $1.5 billion.
- The government is supporting the modernization of forest sector companies by, in particular, allocating more than $65 million for the regeneration of forests and the development of new markets.
- The tax burden of businesses is being reduced to stimulate investment, in particular by raising the income eligible for the reduced tax rate for small businesses from $400 000 to $500 000 and extending accelerated depreciation of manufacturing and processing equipment.

PREPARE QUÉBEC FOR ECONOMIC RECOVERY

The vast potential of northern Québec will be developed sustainably in partnership with the First Nations, the Inuit and the local communities that inhabit this huge territory.

Natural gas exploration activities are being encouraged to capitalize on Québec's favourable geological profile for the discovery of natural gas deposits.

New measures are being introduced to foster the creation of technology companies:

- creation of a $125-million seed fund;
- an $825-million fund to the new Teralys fund;
- introduction of a tax holiday encouraging the commercialization of intellectual property.

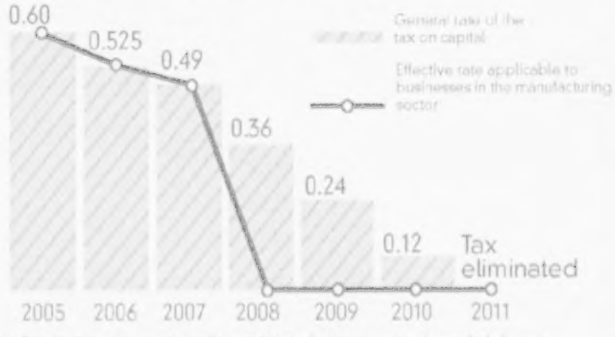
Québec also intends to take advantage of business opportunities related to the environment by implementing measures targeting the utilization, development and demonstration of green technologies.

TOTAL INVESTMENTS STIPULATED UNDER THE EMPLOYMENT PACT

(MILLIONS OF DOLLARS)

ELIMINATION OF THE TAX ON CAPITAL

(APPLICABLE RATE OF THE TAX ON CAPITAL, PERCENT)



1. The elimination of the tax on capital for manufacturing businesses consists of a specific deduction in the calculation of taxable capital.

THE GENERATIONS FUND, A POSITIVE STEP FOR THE FUTURE

DEBT REPAYMENT: A PRIORITY FOR THE GOVERNMENT DESPITE THE CHALLENGING ECONOMIC SITUATION

The Québec government will maintain its payments of dedicated revenues to the Generations Fund, a fund created in 2006 exclusively for the repayment of Québec's debt, over the coming years.

- This fund will restore fairness towards future generations.

BANKING ON WATER, QUÉBEC'S BLUE GOLD

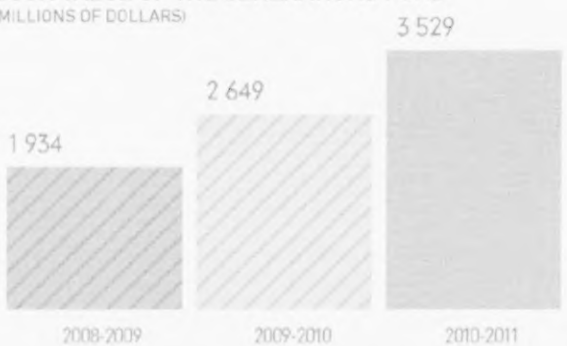
The chief source of financing for the Generations Fund is royalties from a resource Québec has in abundance: water.

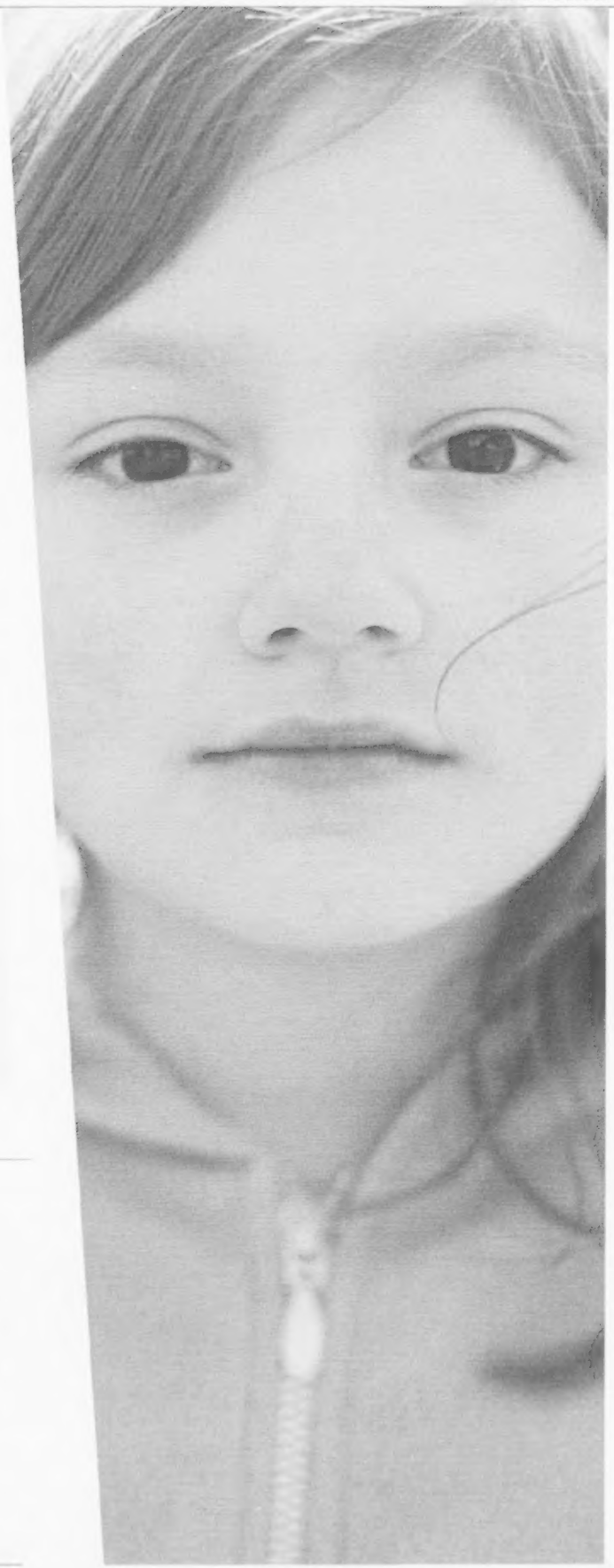
- In 2008-2009, in excess of $625 million in water power royalties paid by Hydro-Québec and private producers of electricity were paid into the Fund.

In March 2009, the government also made an additional payment of $132 million from the sale of assets of the Société immobilière du Québec.

As at March 31, 2009, the book value of the Generations Fund stood at $1.9 billion. It should reach $3.5 billion by March 31, 2011.

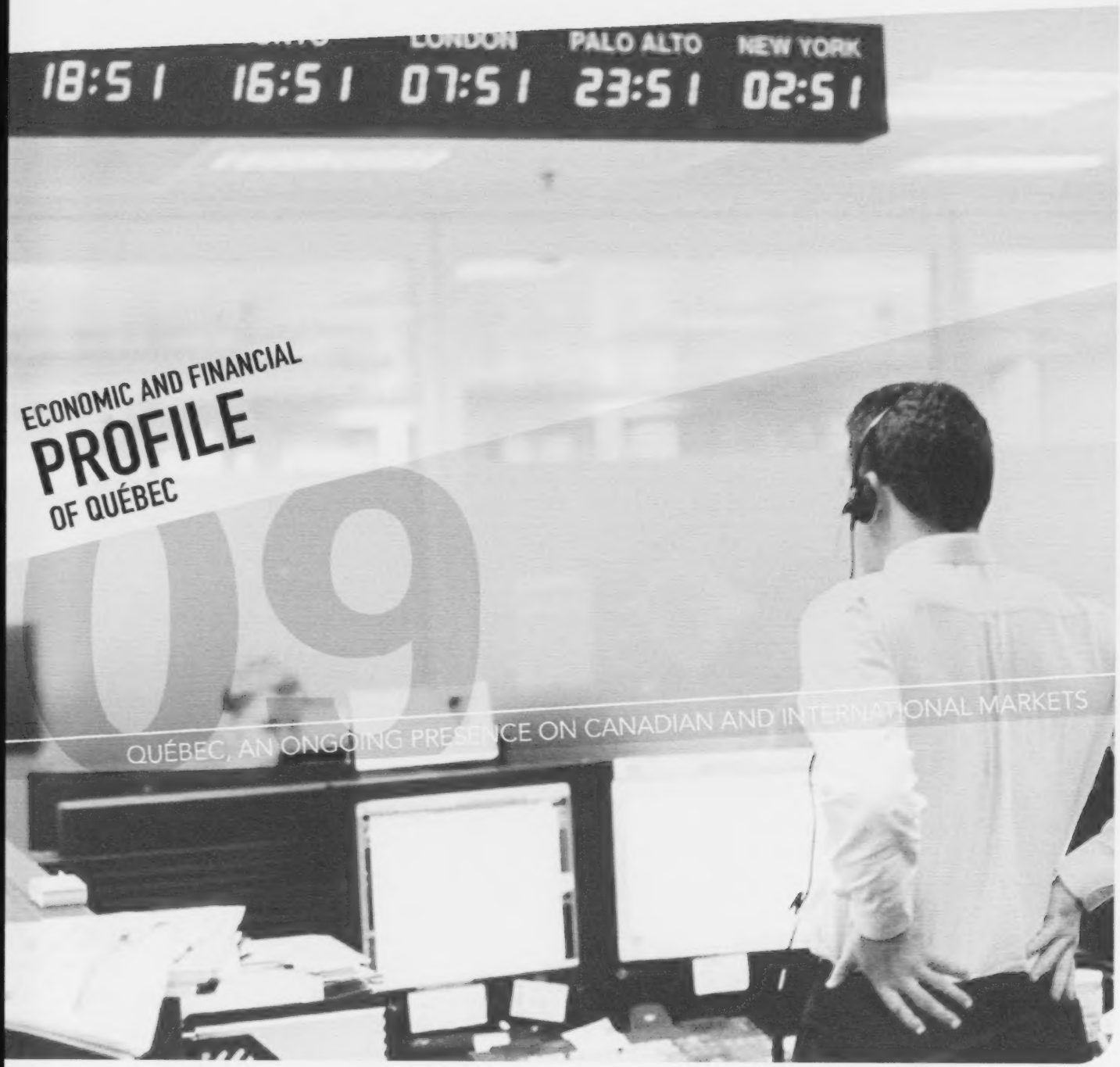
EVOLUTION OF THE BOOK VALUE OF THE GENERATIONS FUND
(MILLIONS OF DOLLARS)





Finances
Québec

FINANCING



ECONOMIC AND FINANCIAL PROFILE OF QUÉBEC

09

QUÉBEC, AN ONGOING PRESENCE ON CANADIAN AND INTERNATIONAL MARKETS

Québec

FINANCING

A STRATEGY OF DIVERSIFYING SOURCES OF FINANCING

Financing Programs .2

High Credit Quality .3

A Major Issuer on the Canadian Market .4

A Regular Presence on International Markets .5

Debt Management .6

An Ongoing and Recognized Presence on International Markets .7

FINANCING PROGRAMS

CONSOLIDATED REVENUE FUND AND FINANCING FUND

The financing program is designed essentially to:

- repay maturing borrowings;
- contribute to the sinking funds for future payment of retirement benefits and other benefits to public and parapublic sector employees;
- make loans to certain consolidated organizations and government corporations through the Financing Fund.

FINANCEMENT-QUÉBEC

Financement-Québec is a government-owned corporation that borrows on financial markets to meet the needs of institutions of the health and education networks to fund their capital investments.

- These organizations thus enjoy lower borrowing costs.
- The Québec government guarantees the borrowings of Financement-Québec.

HYDRO-QUÉBEC

Hydro-Québec's borrowings are guaranteed by the Québec government.

FINANCING PROGRAMS
(MILLIONS OF DOLLARS)

QUÉBEC GOVERNMENT

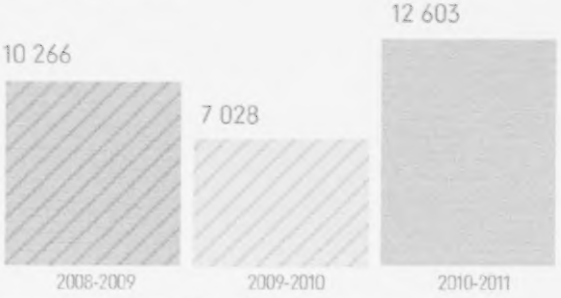
	2008-2009[P]	2009-2010[P]	2010-2011[P]
CONSOLIDATED REVENUE FUND			
Net financial requirements (surplus)[1,2]	- 57	5 017	5 040
Repayments of borrowings	4 571	5 245	3 813
Change in cash position	- 2 413	- 5 984	—
Retirement Plans Sinking Fund (RPSF) and funds dedicated to employee future benefits - Deposits	2 700	—	—
Transactions under the credit policy[3]	- 1 558	—	—
Pre-financing	5 984	—	—
TOTAL - CONSOLIDATED REVENUE FUND	9 227	4 278	8 853
FINANCING FUND	1 039	2 750	3 750
SUBTOTAL - CONSOLIDATED REVENUE FUND AND FINANCING FUND	10 266	7 028	12 603
FINANCEMENT-QUÉBEC	2 675	2 750	2 750
TOTAL	12 941	9 778	15 353

HYDRO-QUÉBEC

2008	2009	2010
2 031	2 100	2 700

P: Preliminary results for 2008-2009 and forecasts for subsequent years.
N.B.: A negative amount indicates a source of financing and a positive amount, a financial requirement.
1 Excluding consolidated entities.
2 Net financial requirements are adjusted to take into account the non-receipt of RPSF income and of funds dedicated to employee future benefits.
3 Under its credit policy, which is designed to limit counterparty risk, the government received $1 558 million in 2008-2009 following exchange rate movements. These receipts reduce financial requirements that have to be met through new borrowings.

FINANCING PROGRAM
CONSOLIDATED REVENUE FUND AND FINANCING FUND[P]
(MILLIONS OF DOLLARS)



P: Preliminary results for 2008-2009 and forecasts for subsequent years.

FINANCING PROGRAM
FINANCEMENT-QUÉBEC[P]
(MILLIONS OF DOLLARS)

P: Preliminary results for 2008-2009 and forecasts for subsequent years.

HIGH CREDIT QUALITY

CREDIT RATINGS

In 2006, two rating agencies raised Québec's credit rating.

- Moody's raised it twice.
  - In June, it went from A1 to Aa3.
  - In November, it was raised to Aa2.
- DBRS raised the rating from A to A (high) in June.

COMMENTS FROM CREDIT AGENCIES

STANDARD & POOR'S, JULY 2008

- "Québec's credit rating is based on: [...] solid performances arising from its large and diversified economy."
- "Québec's credit rating is based on: [...] the improvement in the financial position over the last five years."

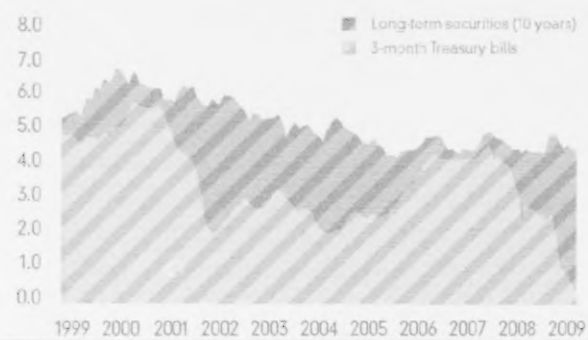
MOODY'S, FEBRUARY 2008

- "Progress in meeting fiscal goals in recent years has reflected successful implementation of expenditure controls and increased federal transfers."
- "The adoption of a clear debt reduction strategy is indicative of the government's commitment to lower the debt burden."

CREDIT RATINGS

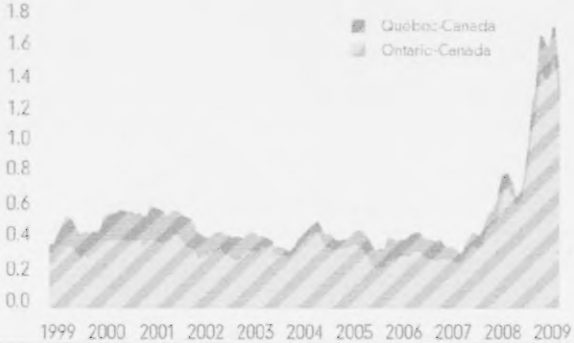
AGENCY	RATING
Moody's	Aa2
Standard & Poor's (S&P)	A+
Dominion Bond Rating Service (DBRS)	A (high)
Fitch Ratings (FITCH)	AA-
Japan Credit Rating Agency (JCR)	AA+

YIELD ON QUÉBEC SECURITIES
(PER CENT)



SOURCES: PC-BOND, A BUSINESS UNIT OF TSX INC. AND MINISTÈRE DES FINANCES DU QUÉBEC.

YIELD SPREAD ON LONG-TERM (10-YEAR) SECURITIES
(PER CENT)



SOURCE: PC-BOND, A BUSINESS UNIT OF TSX INC.

A MAJOR ISSUER ON THE CANADIAN MARKET

HIGHLY LIQUID PUBLIC OFFERINGS

Public offerings form the majority of the government's transactions on the Canadian market.

To foster the liquidity of its securities, the government sets benchmark issues and increases their size until the amount outstanding is optimal.

DIVERSIFICATION BY MATURITY

Québec borrows at all maturities on the Canadian market. In recent years, when market conditions have been favourable, Québec has floated a number of very long-term issues. To date, the longest maturity for a Québec security is in 2076.

In 2008-2009, borrowings of $1.3 billion were made at maturities in 2038 or later. Two of these borrowings mature in 2065.

A STABLE MATURITY SCHEDULE

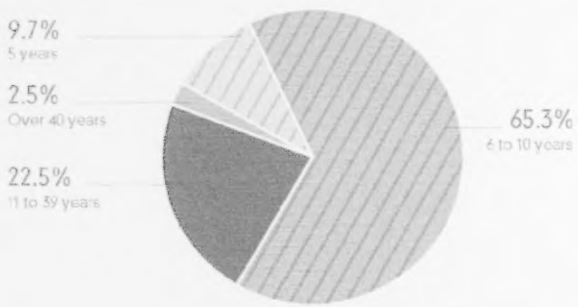
Diversifying borrowings by maturity results in a smooth refinancing schedule, which ensures a regular presence on financial markets.

The average maturity of the debt is 10.9 years.

BENCHMARK ISSUES IN CANADA

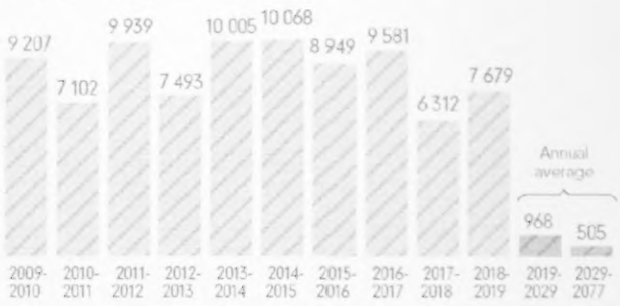
	COUPON %	MATURITY	OUTSTANDING (millions of dollars)
Short-term	6.25	2010	2 631
	6.00	2012	2 342
	5.25	2013	2 152
Medium-term	5.50	2014	2 500
	5.00	2015	2 500
	4.50	2016	3 000
	4.50	2017	4 000
	4.50	2018	4 000
	4.50	2019	1 000
Long-term	9.375	2023	2 202
	6.00	2029	2 737
	6.25	2032	4 200
	5.75	2036	4 083
	5.00	2038	5 000
Very long-term	5.00	2051	420
	Various	2056	1 500
	6.70	2062	150
	Various	2065	385
	6.35	2065	940
	Various	2076	500

BORROWINGS COMPLETED IN 2008-2009[P] BY MATURITY



P: Preliminary results.

MATURITY OF THE DEBT AS AT MARCH 31, 2009[P]
(MILLIONS OF DOLLARS)



P: Preliminary results.
N.B.: Direct debt of the Consolidated Revenue Fund, debt incurred to make advances to the Financing Fund and debt of Financement-Québec.

A REGULAR PRESENCE ON INTERNATIONAL MARKETS

DIVERSIFICATION BY MARKET

Financing transactions are carried out regularly on major international markets, i.e. in the United States, Europe and Asia.

Large issues are floated to ensure good liquidity.

Over the last ten years, on average, one quarter of borrowings were in foreign currencies.

A LARGE NUMBER OF ISSUES ON INTERNATIONAL MARKETS

In 2008-2009, the government turned to international markets for almost one third of its borrowings.

Borrowings were carried out in five foreign currencies:

- 1.25 billion euros in April 2008;
- 1 billion U.S. dollars in May 2008;
- 1.05 billion Swiss francs (5 borrowings);
- 5 billion yen in August 2008;
- 712 million $HK (2 borrowings).

In April 2009, an issue of 1.5 billion euros was floated.

LONGSTANDING PRESENCE ON FOREIGN FINANCIAL MARKETS

Québec's presence on foreign financial markets dates back to the late 19th century, more specifically London in 1874.

Five years later, a borrowing was carried out on the American market.

Québec maintains long-term relations with its financial partners. To facilitate diversification of its sources of financing, Québec promotes its securities with:

- promotion documents;
- meetings with investors;
- involvement of banks and brokerage firms in these activities.

ISSUES IN US DOLLARS

COUPON %	MATURITY	OUTSTANDING (millions of dollars)
6.125	2011	1 000
4.875	2014	1 000
4.60	2015	1 000
5.00	2016	1 250
5.125	2016	1 500
4.625	2018	1 000
7.50	2023	1 000
7.125	2024	1 000
7.50	2029	1 500

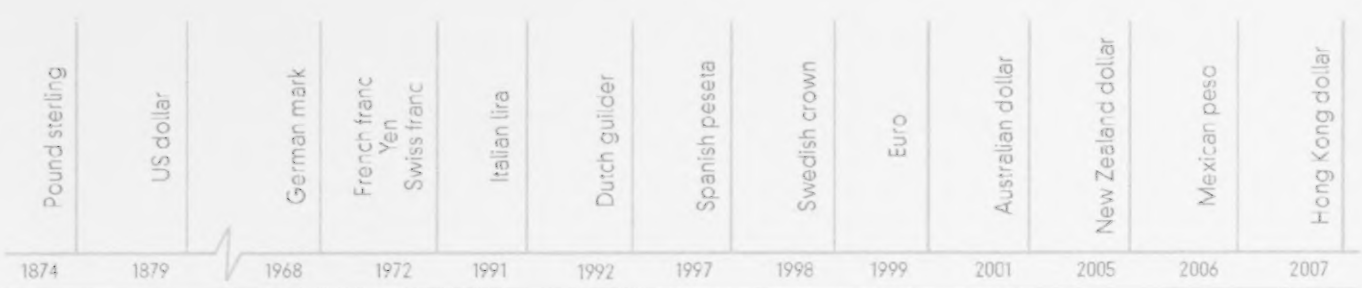
ISSUES IN EUROS

		OUTSTANDING (millions of euros)
5.625	2011	1 500
4.25	2013	1 000
3.625	2015	1 500
3.375	2016	1 500
4.75	2018	1 250
5.00	2019	1 500

ISSUES IN OTHER CURRENCIES

MARKET			OUTSTANDING (millions of currency units)
SWISS FRANC	3.50	2014	250
	3.125	2015	350
	2.25	2015	500
	2.625	2017	500
	3.375	2018	250
	5.875	2018	200
YEN	3.00	2009	100 000
	1.60	2013	50 000
AUSTRALIAN $	5.75	2015	450
NEW ZEALAND $	6.75	2015	300
MEXICAN PESO	8.27	2016	1 500
HK $	4.30	2012	750

DATE OF THE FIRST QUÉBEC BOND ISSUES
(BY CURRENCY)



DEBT MANAGEMENT

DEBT

The government's gross debt includes the direct debt, the net liability under the retirement plans and the net liability for employee future benefits. The gross debt is reduced by the amounts accumulated in the Generations Fund.

Preliminary results show that the gross debt stood at $151.5 billion as at March 31, 2009, equivalent to 49.9% of GDP.

MINIMIZE COST AND RISK

The government's debt management strategy seeks to minimize the cost of the debt while limiting the risk tied to fluctuations in exchange rates and interest rates.

- Borrowings are made where funds are available, at the lowest possible cost.
- Interest rate and currency swaps are used to achieve the desired debt proportions:
  - by currency;
  - at fixed and floating rates.

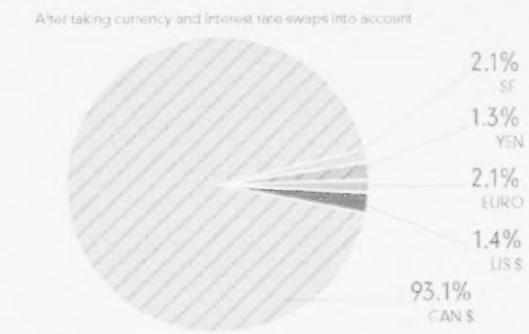
Debt management allows the government to achieve substantial savings on debt service.

THE GOVERNMENT'S GROSS DEBT AS AT MARCH 31, 2009

(BILLIONS OF DOLLARS)

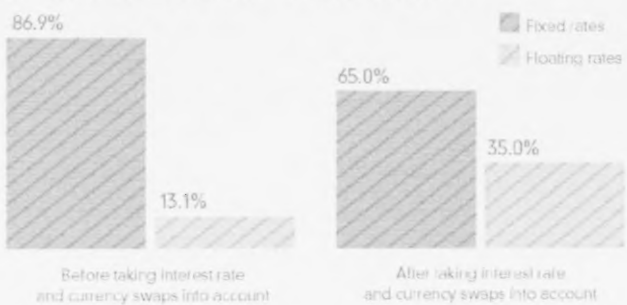
Direct debt	124.9
Net retirement plans and employee future benefits liability	28.5
Less: Amount accumulated in the Generations Fund	1.9
GROSS DEBT	151.5

STRUCTURE OF THE GROSS DEBT BY CURRENCY AS AT MARCH 31, 2009P



P: Preliminary results.

STRUCTURE OF THE GROSS DEBT BY INTEREST RATE AS AT MARCH 31, 2009P



P: Preliminary results.

AN ONGOING AND RECOGNIZED PRESENCE ON INTERNATIONAL MARKETS

ONGOING RECOGNITION BY PLAYERS ON INTERNATIONAL FINANCIAL MARKETS

The financial magazine Euroweek awarded prizes to Québec for transactions in American dollars and in euros carried out in 2001, 2002, 2003, 2005 and 2008.

Québec's issue in Swiss francs in 2005 earned a prize from the International Financing Review.

Québec's issue in euros in April 2009 was very well received by the market, as shown by comments from Euroweek magazine published on April 24, 2009:

" ... an impressive outing for Québec. They had an order book of over Eu2bn for a Eu1.5bn issue...";

" ... they benefited from a strong market, strong name recognition (...) a very successful 10 year".

FIRST PRIZE FOR AN ISSUE IN EUROS

Québec's issue in euros, floated in April 2008, was awarded the prize for best issue in the category of "sub-sovereign/municipal" issuers of the highly-regarded Euroweek financial magazine.

EUROWEEK AWARDS

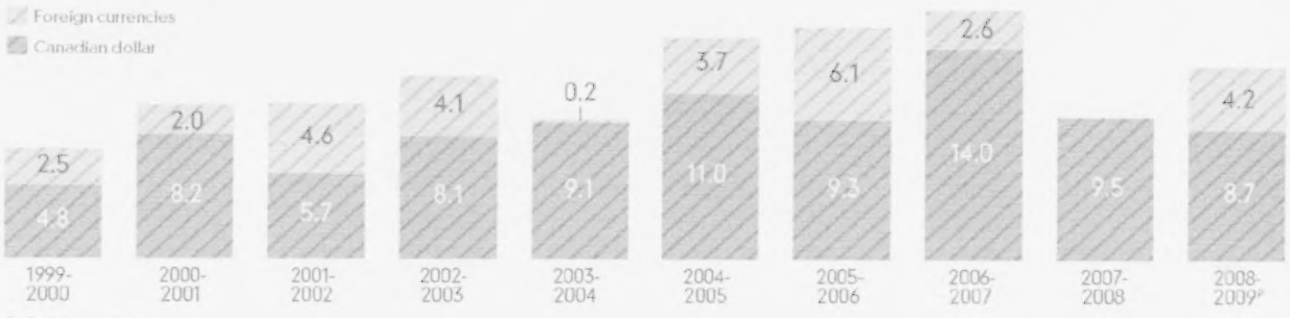
FINANCING ACTIVITIES FACILITATED IN CERTAIN COUNTRIES

Under the standards stemming from the Basel II Agreement, foreign regulatory authorities can assign a 0% risk weight coefficient to Québec securities.

To date: Australia, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom have assigned a 0% risk weight coefficient to Québec securities.

HISTORY OF BORROWINGS BY CURRENCY[1]

(BILLIONS OF DOLLARS)



P Preliminary results.
1 Borrowings of the Consolidated Revenue Fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

Finances Québec

Finances
Québec